

INDEPENDENCE WATER & SANITATION DISTRICT  
BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2024

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Independence Water & Sanitation District  
Elbert County, Colorado

### **Opinion**

We have audited the accompanying financial statements of the business-type activities of Independence Water & Sanitation District, as of and for the year ended December 31, 2024, and the related notes to the financial statements, which collectively comprise Independence Water & Sanitation District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Independence Water & Sanitation District as of December 31, 2024, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Independence Water & Sanitation District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Independence Water & Sanitation District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

## **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Independence Water & Sanitation District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Independence Water & Sanitation District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

## **Required Supplementary Information**

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

### **Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Independence Water & Sanitation District's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*The Adams Group, LLC*

Greenwood Village, Colorado  
July 29, 2025

INDEPENDENCE WATER & SANITATION DISTRICT  
STATEMENT OF NET POSITION  
DECEMBER 31, 2024

Assets

Current assets

Cash and investments	\$ 839,235
Cash and investments - restricted	14,970,565
Utilities receivable	47,888
Capital contributions receivable	151,907
Prepaid expenses	81,833
Total current assets	16,091,428

Noncurrent assets

Capital assets not being depreciated	14,917,322
Capital assets being depreciated, net	13,699,104
Total noncurrent assets	28,616,426

Total assets	44,707,854
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Deferred Outflows of Resources

Deferred loss on bond refunding	331,260
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Liabilities

Current liabilities

Accounts payable	194,584
Accrued interest payable	130,645
Total current liabilities	325,229

Noncurrent liabilities

Bonds payable	29,226,102
Developer advances	820,287
Total noncurrent liabilities	30,046,389

Total liabilities	30,371,618
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Net position

Net investment in capital assets	11,660,321
Restricted for debt service	2,904,771
Unrestricted	102,404
Total net position	\$ 14,667,496

The notes are an integral part of these financial statements.

INDEPENDENCE WATER & SANITATION DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
YEAR ENDED DECEMBER 31, 2024

<u>Operating revenues</u>	
Water sales	\$ 696,483
Miscellaneous	23,572
Total operating revenues	<u>720,055</u>
<u>Operating expenses</u>	
Distribution	1,155,510
Administration and general	216,255
Engineering	1,702
Miscellaneous	20,443
Repairs and maintenance	318,985
Depreciation	257,189
Total operating expenses	<u>1,970,084</u>
Operating loss	<u>(1,250,029)</u>
<u>Nonoperating revenues (expenses)</u>	
Interest income	409,287
Intergovernmental	962,671
Interest expense	(1,577,930)
Cost of issuance	<u>(847,379)</u>
Total nonoperating revenues (expenses)	<u>(1,053,351)</u>
Net loss before contributions	(2,303,380)
Capital contributions	<u>9,236,561</u>
Change in net position	6,933,181
Net position, beginning of year	<u>7,734,315</u>
Net position, end of year	<u>\$ 14,667,496</u>

The notes are an integral part of these financial statements.

INDEPENDENCE WATER & SANITATION DISTRICT  
STATEMENT OF CASH FLOWS  
YEAR ENDED DECEMBER 31, 2024

Cash flows from operating activities:	
Receipts from customers and users	\$ 707,293
Payments to suppliers	<u>(1,681,122)</u>
Net cash used by operating activities	<u>(973,829)</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(4,539,258)
Intergovernmental revenues	962,671
Capital contributions	9,169,893
Interest paid on long-term debt	(1,512,905)
Proceeds from issuance of bonds	28,047,463
Payment of principal on bonds	(19,016,000)
Proceeds from developer advance	985,000
Payment of principal on developer advance	<u>(2,483,007)</u>
Net cash provided by capital and related financing activity	<u>11,613,857</u>
Cash flows from investing activities:	
Purchase of investments	(11,022,746)
Interest and dividends	<u>409,287</u>
Net cash used by investing activities	<u>(10,613,459)</u>
Net change in cash	<u>26,569</u>
Cash at beginning of year	<u>62,162</u>
Cash at end of year	<u>\$ 88,731</u>
Reconciliation of operating loss to net cash used by operating activities	
Operating loss	\$ (1,250,029)
Depreciation expense	257,189
Adjustments to reconcile operating loss to net cash used by operating activities	
Increase in utilities receivable	(21,052)
Decrease in other receivables	8,290
Increase in prepaid expenses	(12,969)
Increase in accounts payable	<u>44,742</u>
Net cash used by operating activities	<u>\$ (973,829)</u>
Total cash	\$ 88,731
Total investments	<u>15,721,069</u>
Total cash and investments	<u>\$ 15,809,800</u>
Cash and investments	\$ 839,235
Cash and investments - restricted	<u>14,970,565</u>
Total cash and investments	<u>\$ 15,809,800</u>

The notes are an integral part of these financial statements.

INDEPENDENCE WATER & SANITATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2024

NOTE 1 - DEFINITION OF REPORTING ENTITY

Independence Water & Sanitation District (the District), a quasi-municipal corporation and political subdivision of the State of Colorado, was established on November 7, 2017 and is governed pursuant to provisions of the Colorado Special District Act. The District's service area is located within the County of Elbert, Colorado.

The District was formed in conjunction with five other districts which collectively comprise the Independence Development (Development).

The District was established to acquire, construct, finance, and maintain public water, sewer and storm drainage improvements for the use and benefit of service users of the District's systems.

The District has no employees and all operations and administrative functions are contracted.

The District follows the Governmental Accounting Standards Board (GASB) accounting pronouncements, which provide guidance for determining which governmental activities, organizations, and functions should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential of the organization to provide specific financial benefits or burdens, and fiscal dependency.

The District is not financially accountable for any other organization nor is the District a component unit of any other primary governmental entity.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The District reports a single major proprietary enterprise fund which accounts for the revenues and expenses of water, wastewater, and irrigation services provided by the District. The District's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expense for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

INDEPENDENCE WATER & SANITATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2024

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets

In accordance with the State Budget Law, the District's Board of Directors hold public hearings each year to approve the budget and appropriate the funds for the ensuing year. The appropriation is at the total fund expenditures level and lapses at year end. The District's Board of Directors can modify the budget by line item within the total appropriation without notification. The appropriation can only be modified upon completion of notification and publication requirements. The budget is adopted on a non-GAAP basis wherein payments for capital assets and principal on long-term obligations are budgeted as expenses and proceeds from long-term obligations are budgeted as revenues.

Cash and Cash Equivalents

For the purpose of the accompanying statement of cash flows, the District considers demand deposits with financial institutions to be cash and cash equivalents.

Utilities and Capital Contributions Receivable

Utilities and capital contributions receivable are recorded net of estimated uncollectible accounts. Management believes all utilities and capital contributions receivable as of December 31, 2024 are fully collectible and therefore have not recorded an allowance for doubtful accounts.

Capital Assets

Capital assets consist of property, plant, equipment, and infrastructure assets (e.g. water and wastewater improvements). Such assets are recorded at acquisition cost or estimated acquisition cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. Constructed capital assets which have not yet been completed are recorded as construction in progress. The District has not adopted a capitalization threshold.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

For applicable capital assets, depreciation has been recognized using the straight-line method over useful lives ranging from 15 to 40 years.

Deferred Outflows of Resources

Deferred outflows of resources consist of prepayment premiums incurred with the refunding of the 2019 Bonds described in Note 5. The prepayment premium will be amortized over the life of the 2024 Bonds commencing in 2025.

Net Position

Net position comprises the various net earnings from operating income, nonoperating revenues and expenses, and capital contributions. Net position is classified in the following three components:

INDEPENDENCE WATER & SANITATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2024

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*Net Investment in Capital Assets* – This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

*Restricted* – This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

*Unrestricted Net Position* – This component of net position consists of amounts that do not meet the definition of “restricted” or “net investment in capital assets.”

If both restricted and unrestricted resources are available to use for the same purpose, it is the District’s practice to use restricted resources first, and then unrestricted resources as they are needed.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 - CASH AND INVESTMENTS

Cash and investments as of December 31, 2024 are classified in the accompanying financial statements as follows:

Cash and investments	\$ 839,235
Cash and investments - restricted	14,970,565
Total cash and investments	<u>\$ 15,809,800</u>

Cash and investments as of December 31, 2024, consist of the following:

Deposits with financial institutions	\$ 88,731
Investments	15,721,069
Total cash and investments	<u>\$ 15,809,800</u>

Restricted cash and investments consists of funds reserved for debt service requirements and development project costs.

INDEPENDENCE WATER & SANITATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2024

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

Deposits with Financial Institutions

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by State regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool for all the uninsured public deposits as a group is to be maintained by another institution or held in a trust. The market value of the collateral must be at least equal to 102% of the aggregate uninsured deposits.

The State Commissioners for banks and financial services are required by statute to monitor the naming of eligible depositories, the reporting of the uninsured deposits, and assets maintained in the collateral pools.

At December 31, 2024, the District's cash deposits had a bank balance of \$215,973 and a carrying balance of \$88,731.

Investments

The District has not adopted a formal investment policy, however, the District follows State statutes regarding investments.

The District generally limits its concentration of investments to those noted with an asterisk (\*) below, which are believed to have minimal credit risk, minimal interest rate risk, and no foreign currency risk. Additionally, the District is not subject to concentration risk disclosure requirements or subject to investment custodial risk for investments that are in the possession of another party.

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board of Directors. Such actions are generally associated with a debt service reserve or sinking fund requirements. Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local governments may invest which include:

- Obligations of the United States and certain U.S. government agency securities and the World Bank
- General obligation and revenue bonds of U.S. local government entities
- Certain certificates of participation
- Certain securities lending agreements
- Bankers' acceptances of certain banks
- Commercial paper
- Written repurchase agreements and certain reverse repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts.
- \*Local government investment pools

INDEPENDENCE WATER & SANITATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2024

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

As of December 31, 2024, the District had the following investments:

<u>Investment</u>	<u>Weighted Average Maturity</u>	<u>Amount</u>
Colorado Local Government Liquid Asset Trust (COLOTRUST)	Less than 60 days	<u>\$ 15,721,069</u>

COLOTRUST

The District invested in the Colorado Local Government Liquid Trust (COLOTRUST) (the Trust), an investment vehicle established for local governmental entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust currently offers three portfolios – COLOTRUST PRIME, COLOTRUST PLUS+, and COLOTRUST EDGE.

COLOTRUST PRIME and COLOTRUST PLUS+, which operate similarly to a money market fund and each share is equal in value to \$1.00, offer daily liquidity. Both portfolios may invest in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper, and any security allowed under CRS 24-75-601.

COLOTRUST EDGE, a variable Net Asset Value (NAV) Local Government Investment Pool, offers weekly liquidity and is managed to approximate a \$10.00 transactional share price. COLOTRUST EDGE may invest in securities authorized by Section 24-75-601.1, CRS, including U.S. Treasury securities, repurchase agreements collateralized by U.S. Treasury securities, certain obligations of U.S. government agencies, and highest rated commercial paper.

A designated custodial bank serves as custodian for the Trust’s portfolios pursuant to a custodian agreement. The custodian acts as safekeeping agent for the Trust’s investment portfolios and provides services as the depository in connection with direct investments and withdrawals. The custodian’s internal records segregate investments owned by the Trust. COLOTRUST PRIME and COLOTRUST PLUS+ are rated AAAm by Standard & Poor’s. COLOTRUST EDGE is rated AA Af/S1 by FitchRatings. COLOTRUST records its investments at fair value and the District records its investments in COLOTRUST at NAV as determined by fair value. There are no unfunded commitments, the redemption frequency is daily or weekly, and there is no redemption notice period.

INDEPENDENCE WATER & SANITATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2024

**NOTE 4 - CAPITAL ASSETS**

The following is an analysis of changes in capital assets for the year ended December 31, 2024.

	Balance 12/31/23	Additions	Deletions/ Transfers	Balance 12/31/24
Business-type activities:				
Capital assets not being depreciated:				
Water rights	\$ 14,917,322	\$ -	\$ -	\$ 14,917,322
Total capital assets, not being depreciated	14,917,322	-	-	14,917,322
Capital assets, being depreciated				
Water system	5,226,570	4,449,368	-	9,675,938
Waste water system	4,431,408	61,236	-	4,492,644
Irrigation system	212,262	28,654	-	240,916
Total capital assets, being depreciated	9,870,240	4,539,258	-	14,409,498
Less: accumulated depreciation				
Water system	(234,444)	(132,087)	-	(366,531)
Waste water system	(212,880)	(110,951)	-	(323,831)
Irrigation system	(5,881)	(14,151)	-	(20,032)
Total capital assets, being depreciated	(453,205)	(257,189)	-	(710,394)
Total capital assets, being depreciated, net	9,417,035	4,282,069	-	13,699,104
Total capital assets, net	\$ 24,334,357	\$ 4,282,069	\$ -	\$ 28,616,426

**NOTE 5 - LONG-TERM OBLIGATIONS**

The following is an analysis of changes in long-term obligations for the year ended December 31, 2024:

	Balance 12/31/23	Additions	Repayments/ Amortization	Balance 12/31/24	Due Within One Year
Business-type activities:					
Special revenue obligation bonds					
Series 2019	\$ 19,016,000	\$ -	\$ (19,016,000)	\$ -	\$ -
Interest on Series 2019 bonds	49,498	1,353,067	(1,402,565)	-	-
Special revenue refunding and improvement bonds					
Series 2024	-	29,750,000	-	29,750,000	-
Discount	-	(523,898)	-	(523,898)	-
Interest on Series 2024 bonds	-	127,057	-	127,057	127,057
Developer advances	2,318,294	985,000	(2,483,007)	820,287	-
Interest on developer advances	16,122	97,806	(110,340)	3,588	3,588
	<u>\$ 21,399,914</u>	<u>\$ 31,789,032</u>	<u>\$ (23,011,912)</u>	<u>\$ 30,177,034</u>	<u>\$ 130,645</u>

**Special Revenue Obligation Bonds, Series 2019**

In March 2019, the District issued \$22,270,000 of Tax-Exempt Special Revenue Obligation Bonds (the 2019 Bonds). The 2019 Bonds were issued with an interest rate of 7.25% per annum. Interest is payable annually on December 1, commencing on December 1, 2019. Any unpaid interest compounds annually thereafter. The 2019 Bonds mature on December 1, 2038.

INDEPENDENCE WATER & SANITATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
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NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)

The 2019 Bonds are structured as cash flow bonds, meaning that the Indenture contains no scheduled payments of principal on the Bonds other than at maturity. Principal is payable each December 1 from the available pledged revenues, if any, pursuant to a mandatory redemption. All unpaid principal is due upon maturity. The failure to pay principal of or interest on the 2019 Bonds when due shall not constitute an event of default

The 2019 Bonds are secured and payable from pledged revenue, consisting generally of (i) Tap Fee Revenues, (ii) Capital User Fee Revenues, if imposed, and (iii) all Net Water Rights Sales Proceeds. The primary source of revenue is expected to be the Tap Fee Revenues. The issuer of the 2019 Bonds and the developer entered into an Unsecured Tap Fee Agreement, whereby the developer has the option to pay a certain amount of the tap fees each year if a shortfall event occurs; however, there is no guarantee that the developer will purchase water taps in the amounts required by the Unsecured Tap Fee agreement. The proceeds of the 2019 Bonds were used to: (i) finance water and sanitation improvements, including the acquisition of conveyed water rights, and (ii) pay the costs of issuance of the 2019 Bonds. The 2019 Bonds are also secured by amounts held in the Project Fund, the Bond Fund, the Interest Account, and the Mandatory Redemption Account.

The 2019 Bonds were refunded and defeased during 2024.

Special Revenue Refunding and Improvement Bonds, Series 2024

In December 2024, the District issued \$29,750,000 of Tax-Exempt Special Revenue Refunding and Improvement Bonds (the 2024 Bonds). The 2024 Bonds were issued with an interest rate of 5.125% per annum. Interest is payable annually on December 1, commencing on December 1, 2025. Any unpaid interest compounds annually thereafter. The 2024 Bonds mature on December 1, 2033. The 2024 Bonds were issued at an original discount of \$523,898.

Proceeds from the 2024 Bonds were used to: (i) pay and cancel the 2019 Bonds, (ii) pay project costs, (iii) fund the Reserve Fund, and (iv) pay other costs in connection with the issuance of the bonds.

The 2024 Bonds are structured as cash flow bonds, meaning that the Indenture contains no scheduled payments of principal on the Bonds other than at maturity. Principal is payable each December 1 from the available pledged revenues, if any, pursuant to a mandatory redemption. All unpaid principal is due upon maturity. The failure to pay principal of or interest on the 2024 Bonds when due shall not constitute an event of default

The 2019 Bonds are secured and payable from pledged revenue, consisting generally of (i) Tap Fee Revenues, (ii) Water Fee Revenues, and (iii) any other legally available amounts that the District determines. The 2024 Bonds are also secured by amounts held in the Reserve Fund in the amount of \$1,487,000.

INDEPENDENCE WATER & SANITATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2024

NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)

From December 1, 2029 to November 30, 2030 bonds can be prepaid at a redemption premium of 3%. From December 1, 2030 to November 30, 2031 bonds can be prepaid at a redemption premium of 2%. From December 1, 2031 to November 30, 2032 bonds can be prepaid at a redemption premium of 1%. After December 1, 2032 bonds can be redeemed without premium

Developer Advances

The District entered into an Advance and Reimbursement Agreement to repay advances made by the Developer to the District. The District agreed to repay the Developer for such advances plus accrued interest at the rate higher of 7% or U.S. Prime Rate plus 2%. As of December 31, 2024, the interest rate was 9.50%.

Authorized Debt

On November 7, 2017, a majority of qualified electors of the District authorized the issuance of indebtedness in an amount not to exceed \$190,456,500 to fund the acquisition of water rights and the acquisition and/or construction of public improvements. At December 31, 2024, the District had authorized and issued indebtedness from the election in the following amounts:

	<u>Authorized</u>	<u>Remaining</u>
Water rights & public improvements	<u>\$ 190,456,500</u>	<u>\$ 165,967,885</u>

NOTE 6 - NET POSITION

The District's net position consists of three components - net investment in capital assets, restricted for debt service, and unrestricted.

Net investment in capital assets consist of capital assets, net of accumulated depreciation and reduced by the outstanding balances of long-term obligations that are attributable to the acquisition, construction, or improvements of those assets.

Restricted for debt service consists of cash and investments restricted for payment on the Series 2024 Bonds reduced by accrued interest on the bonds.

NOTE 7 - RISK MANAGEMENT

Except as provided in the Colorado Governmental Immunity Act, the District may be exposed to various risks of loss related to torts, thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees, or acts of God.

INDEPENDENCE WATER & SANITATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2024

NOTE 7 - RISK MANAGEMENT (CONTINUED)

The District is a member of the Colorado Special Districts Property and Liability Pool (Pool). The Pool is an organization created by intergovernmental agreement to provide property, liability, public officials' liability, boiler and machinery and workers compensation coverage to its members. Settled claims have not exceeded this coverage in any of the past three fiscal years. The District pays annual premiums to the Pool for liability, property, public officials' liability and workers compensation coverage. In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

NOTE 8 - TAX, SPENDING AND DEBT LIMITATIONS

Article X, Section 20 of the Colorado Constitution, commonly known as the Taxpayer's Bill of Rights (TABOR), contains tax, spending, revenue and debt limitations which apply to the State of Colorado and all local governments, except those governmental activities designated as Enterprises.

Spending and revenue limits are determined based on the prior year's Fiscal Year Spending adjusted for allowable increases based upon inflation and local growth. Fiscal Year Spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenue in excess of the Fiscal Year Spending limit must be refunded unless the voters approve retention of such revenue.

TABOR requires local governments to establish Emergency Reserves. These reserves must be at least 3% of Fiscal Year Spending (excluding bonded debt service). Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases.

The District operates as an enterprise fund under Title 37, Article 45.1, C.R.S., to provide wholesale water and wastewater services in accordance with its Service Plan. An enterprise fund under Section 20 of the Colorado Constitution may receive less than 10% of its annual revenue in grants from Colorado state and local governments combined.

On November 7, 2017, the District's voters passed an election question authorized the retention of all revenues received from any source during the 2017 budget year and each budget year thereafter that are in excess of the revenue and fiscal year spending limits that would otherwise apply under Article X, Section 20 of the Colorado Constitution or any other law.

The District's management believes it is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions, including the interpretation of how to calculate Fiscal Year Spending limits will require judicial interpretation.

INDEPENDENCE WATER & SANITATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2024

NOTE 9 - RELATED PARTIES

The District is one of six districts in the development and Board members serve on all districts. The developer of the infrastructure which constitutes the District is Craft Bandera Acquisition Company, LLC and Craft Companies, LLC. The members of the Board of Directors are employed, owners of, or consultants of the developer.

As of December 31, 2024, the District owed the Developer \$820,287 of outstanding principal and accrued interest of \$3,588.

During the year ended December 31, 2024, the District paid the Developer \$4,236,142 for the acquisition of capital assets.

During the year ended December 31, 2024, the District received \$962,671 transferred from Independence District No. 3 which is included in intergovernmental revenue in the accompanying statement of revenues, expenses, and changes in net position.

**SUPPLEMENTARY INFORMATION**

INDEPENDENCE WATER & SANITATION DISTRICT  
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN  
NET POSITION – BUDGET AND ACTUAL - BUDGETARY BASIS  
YEAR ENDED DECEMBER 31, 2024

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
<u>Revenues</u>				
Builder construction water fee	\$ 10,000	\$ 22,500	\$ 22,500	\$ 0
Bulk water sales	2,000	-	-	-
Storm drainage account set-up fees	3,750	4,350	4,350	-
Storm drainage facility fees	707,600	737,517	737,517	-
Storm drainage maintenance fees	22,500	23,750	23,750	-
Tap fees	3,742,800	8,253,794	8,253,794	-
Potable water base rate	300,000	295,096	295,096	-
Potable water sales	15,000	14,506	14,506	-
Irrigation water base rate	84,000	76,105	76,105	-
Irrigation water use	30,000	38,379	38,379	-
Water meters and equipment	88,000	194,650	194,650	-
Wastewater service charges	300,000	272,397	272,397	-
Late fees	-	6,610	6,610	-
Title requests	500	500	500	-
Interest income	80,000	409,287	409,287	-
Status letter fees	2,500	15,056	15,056	-
Safety grant	-	1,406	1,406	-
Transfer from Independence #3	-	962,671	962,671	-
Proceeds from bond issuance	-	29,226,102	29,226,102	-
Developer advances	300,000	985,000	985,000	-
Total revenues	<u>5,688,650</u>	<u>41,539,676</u>	<u>41,539,676</u>	<u>-</u>
<u>Expenses</u>				
Administrative:				
Audit	11,000	10,500	10,500	-
Dues and subscriptions	1,700	1,238	1,238	-
Engineering	10,000	1,702	1,702	-
Information technology	2,000	860	860	-
Legal	10,000	17,529	17,529	-
Management and accounting	60,000	83,150	83,150	-
Emergency reserves	5,000	-	-	-
Administrative totals	<u>99,700</u>	<u>114,979</u>	<u>114,979</u>	<u>-</u>
Water Operations:				
Capital improvements	1,000,000	4,449,368	4,449,368	-
Chemicals	17,000	16,197	16,197	-
Conveyances	-	12,843	12,843	-
Dues and subscriptions	750	1,999	1,999	-
Engineering	60,000	-	-	-
Equipment	85,000	346,210	346,210	-
Generator maintenance	16,000	-	-	-
Insurance	25,000	22,955	22,955	-
Lab analysis	12,000	2,863	2,863	-
Landscaping maintenance	1,000	22,057	22,057	-
Legal	5,000	5,760	5,760	-
Legal - water rights	25,000	23,396	23,396	-
Locates	20,000	28,718	28,718	-
Meter reading	6,000	5,547	5,547	-
Operations	70,000	59,745	59,745	-
Permit fees	1,500	807	807	-

See Independent Auditors' Report

INDEPENDENCE WATER & SANITATION DISTRICT  
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN  
NET POSITION – BUDGET AND ACTUAL - BUDGETARY BASIS - (CONTINUED)  
YEAR ENDED DECEMBER 31, 2024

	Original and Final Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
Water Operations (Continued):				
Repairs and maintenance	85,000	131,245	131,245	-
Telephone	1,800	1,557	1,557	-
Tools and supplies	100,000	57,746	57,746	-
Trash	1,500	1,400	1,400	-
Utilities	100,000	25,228	25,228	-
Utility billing	6,000	9,081	9,081	-
Water meters and equipment	50,000	105,550	105,550	-
Well maintenance	25,000	18,634	18,634	-
Contingency	5,000	-	-	-
Water operations totals	1,718,550	5,348,906	5,348,906	-
Wastewater Operations:				
Capital improvements	1,000,000	61,236	61,236	-
Chemicals	18,000	32,828	32,828	-
Dues and subscriptions	500	-	-	-
Engineering	50,000	-	-	-
Generator maintenance	6,000	-	-	-
Insurance	25,000	22,955	22,955	-
Irrigation	-	466	466	-
Lab analysis	7,000	7,395	7,395	-
Landscaping maintenance	1,000	17,793	17,793	-
Locates	16,000	15,440	15,440	-
Operations	75,000	55,469	55,469	-
Permits	1,000	1,025	1,025	-
Repairs and maintenance	75,000	41,902	41,902	-
Sludge disposal	35,000	138,462	138,462	-
Telephone	1,800	1,401	1,401	-
Tools and supplies	30,000	1,481	1,481	-
Trash	1,500	1,400	1,400	-
Utilities	25,000	6,799	6,799	-
Utility billing	5,500	9,081	9,081	-
Video/jetting	20,000	-	-	-
Contingency	5,000	-	-	-
Wastewater operations totals	1,398,300	415,133	415,133	-

See Independent Auditors' Report

INDEPENDENCE WATER & SANITATION DISTRICT  
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN  
NET POSITION – BUDGET AND ACTUAL - BUDGETARY BASIS - (CONTINUED)  
YEAR ENDED DECEMBER 31, 2024

	Original and Final Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
Irrigation Operations:				
Capital improvements	-	28,654	28,654	-
Chemicals	13,000	4,528	4,528	-
Engineering	20,000	-	-	-
Insurance	25,000	22,955	22,955	-
Landscaping maintenance	1,000	10,750	10,750	-
Locates	1,000	12,348	12,348	-
Meter reading	6,000	4,875	4,875	-
Operations	20,000	56,517	56,517	-
Permits	10,000	750	750	-
Repairs and maintenance	60,000	145,838	145,838	-
Tools and supplies	15,000	11,089	11,089	-
Utilities	12,000	157	157	-
Utility billing	4,000	-	-	-
Water meters and equipment	45,000	54,231	54,231	-
Contingency	5,000	-	-	-
Irrigation operations totals	<u>237,000</u>	<u>352,692</u>	<u>352,692</u>	<u>-</u>
Bond principal payments	2,360,000	19,016,000	19,016,000	-
Interest expense	1,379,168	1,512,905	1,512,905	-
Cost of issuance	-	847,379	847,379	-
Legal	1,200	-	-	-
Developer advance reimbursement	-	2,483,007	2,483,007	-
Paying agent fees	4,000	4,095	4,095	-
Bank charges	1,500	16,348	16,348	-
Debt services totals	<u>3,745,868</u>	<u>23,879,734</u>	<u>23,879,734</u>	<u>-</u>
Total expenses	<u>7,199,418</u>	<u>30,111,444</u>	<u>30,111,444</u>	<u>-</u>
Excess of Revenues Over Expenses	<u>\$ (1,510,768)</u>	<u>\$ 11,428,232</u>	11,428,232	<u>\$ -</u>
Reconciliation to GAAP Basis				
Capital outlay			4,539,258	
Depreciation expense			(257,189)	
Proceeds from developer advance			(985,000)	
Bond principal payments			19,016,000	
Proceeds from bond issuance			(29,226,102)	
Developer advance reimbursement			2,483,007	
Change in accrued interest			(65,025)	
Change in net position, GAAP Basis			<u>6,933,181</u>	
Net Position, Beginning			<u>7,734,315</u>	
Net Position, Ending			<u>\$ 14,667,496</u>	

See Independent Auditors' Report